



March 31, 2014
Company Report
Rating: BUY
TP: HK\$ 4.30

Share price (HK\$) 3.34
Est. share price return 28.7%
Est. FY14 div. yield 7.4%
Est. total return 36.1%

Previous Rating & TP HK\$3.20; BUY
Previous Report Date Jan 21, 2014

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Key Data

52Wk H/L(HK\$)	4.48/1.86
Issued shares (mn)	4,030
Market cap	13,460
3-mth avg daily turnover (HK\$ mn)	28.99
Major shareholder(s) (%):	
Wong Choi Hing & family	59.10
Hony Capital	14.93

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development	99.9
Property management	0.1

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(14.4)	(11.4)
3-mth	49.8	58.2
6-mth	na	na

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Hydoo (1396 HK)

Ecommerce will unleash massive growth potential; maintain BUY

- FY13 core profit surged 291% YoY to RMB 1,418mn, beating our forecast by 10% on better-than-expected government grant recognized
- FY13 gross margin improved further by 13.3ppt YoY to 61.6%, one of the highest among PRC developers
- Presales grew 436% YoY to RMB 7bn in FY13; management expects 2014E presales to reach RMB 8.5-9.5bn, which is conservative in our view
- Management sees great potential in ecommerce in tier 3 & 4 cities based on its close relationship with local SMEs
- Maintain **BUY** with revised TP at HK\$4.30, based on a 30% discount to end-FY14E NAV. Current valuation is attractive at 4.7x FY14E P/E and has a FY14E yield of 7.4%

FY13 results are impressive by all metrics. Hydoo's FY13 core profit surged 291% YoY to RMB 1,418mn as GFA delivery increased substantially by 95% YoY to 0.694 mn sqm. Its core profit exceeded our forecast by 10% on better-than-expected government grant recognized. Two notable improvements in the Group's financials include **1) Gross margin expansion** amid an industry-wide decline in profitability. Hydoo's GP margin expanded further from 48.3% in FY12 to 61.6% in FY13. Excluding the effect of government grant, GP margin still jumped from 30.6% in FY12 to 48.7% in FY13, as booked ASP rose by 50% YoY to RMB 6,843/sqm; **2) Net cash position** of RMB3.6bn, equivalent to 31% of its market cap., as opposed to the average net gearing level among small/mid cap peers at 60%-70%. We expect Hydoo to remain in a net cash position with its low land cost. Hydoo announced a generous DPS of RMB 0.15, implying a dividend yield of 5.7% based on the closing price of HK\$3.34 on Mar 30, 2014.

Three main goals for 2014: 1) Secure 2-3 new projects. Management said that 5 projects are currently under negotiation. Going forward, tier 3/4 cities will still be the focus, although tier 2 cities with good demand for logistics center will also be considered. **2) Presales target of RMB 8.5-9.5bn.** The official sales target implies a slower growth rate of 20-30% than that of 2013 presales (RMB 7bn, +436% YoY). This target is conservative as total saleable resources in 2014 will be around RMB 13.5-14.5bn. The target implies a sell-through rate of 54%-61%, which is highly attainable. In 2013, the Group achieved a sell-through rate of 95% for most of their projects. 1Q14 presales reached RMB3.8bn, equivalent to 40%-45% of its sales target. We believe the Group is well on its way to achieve its target. **3) Create an e-commerce platform.** Management commented that ecommerce-related logistics business is underdeveloped in tier 3/4 cities. For instance, the time lag between ordering online and delivery from a major online retailer is 4-5 days in Ganzhou, compared to 24 hours in Shenzhen. This presents a great opportunity for Hydoo to expand in the ecommerce segment. The Group could team up with major online retailers to penetrate into the underdeveloped cities, given that sufficient land is provided and warehouses could be built within its logistics parks. (continue next page)

Results and Valuation

FY ended Dec 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (RMB mn)	1,607	4,756	8,029	9,305	10,019
Chg (% YoY)	93.0	196.0	68.8	15.9	7.7
Core net profit (RMB mn)	363	1,418	2,278	2,799	3,075
Chg (% YoY)	67.9	291.0	60.6	22.9	9.9
Underlying EPS (RMB)	0.12	0.44	0.57	0.69	0.76
Chg (% YoY)	67.9	260.1	29.8	22.9	9.9
BVPS (RMB)	0.32	1.36	1.46	1.92	2.41
Chg (% YoY)	154.9	328.7	7.9	30.8	25.9
Underlying PE (x)	22.1	6.1	4.7	3.8	3.5
P/B (x)	8.4	2.0	1.8	1.4	1.1
ROE (%)	38.2	32.1	38.6	36.3	31.6
ROA (%)	7.1	12.9	13.3	13.9	15.2
DPS (RMB)	-	0.15	0.20	0.24	0.27
Dividend yield (%)	-	5.7	7.4	9.1	10.0
Net gearing (%)	76.2	Net cash	Net cash	Net cash	Net cash

*Net gearing=Net debt/Total Shareholders' equity

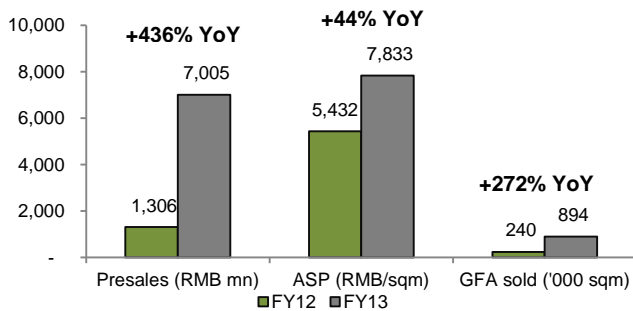
Source(s): Bloomberg, ABCI Securities estimates

Also, Hydoo's close relationship with SMEs is a valuable asset in the eyes of the online giants such as Tencent and Alibaba. Each Hydoo's business park houses thousands of SMEs, of which many are not familiar with internet use. With daily interactions with SMEs, Hydoo could help promote the use of internet platforms developed by the internet giants for trade and business activities. Currently, Hydoo is negotiating with various internet retailers for potential cooperation. In the long run, management expect these major business goals could elevate sales and net profit by at least 30% per year.

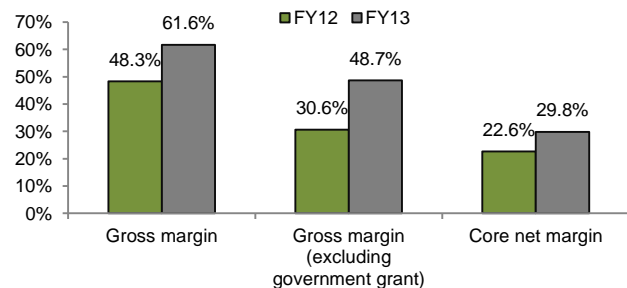
No signs of margin contraction. Management commented gross/net margins should remain stable at around 60% and 30%. Hydoo received a total of RMB 958mn in government grant for FY13, following the RMB 266mn/RMB 587mn received in FY 11/12. This demonstrates the continuous support from the government. Beside, FY13 presales ASP of RMB 7,833/sqm, which is 8%-10% higher than the FY12 booked ASP (before business tax), will also support Hydoo's margin in the next financial year.

Maintain BUY with revised TP of HK\$4.30. The better-than-expected FY13 results prompt us to raise our TP to HK\$ 4.30 (from HK\$ 3.20), based on a revised FY14E NAV of 30% discount (from 50% previously). We believe the Group deserves a lower NAV discount than its commercial peers which average at 50%, supported by its healthy balance sheet, above-average gross margin and growing e-commerce potential.

Risk factors: 1) Uncertain timing and sizes of government grants; 2) Overreliance on investors' demand; 3) More austerity measures in China's property market.

Exhibit 1: Hydoo's presales (FY13 vs FY12)


Source(s): Company, ABCI Securities

Exhibit 2 : Hydoo's gross margin (FY13 vs FY12)


Source(s): Company, ABCI Securities

Exhibit 3: Hydoo's landbank (Dec 13)

('000 sqm)	Completed properties	Properties under development	For future development	Total	%
Ningxiang	107	62	-	168	2%
Jining	124	185	594	903	12%
Yulin	89	55	410	553	7%
Mianyang	77	206	110	392	5%
Ganzhou	175	250	2,807	3,232	41%
Wuzhou	-	472	613	1,085	14%
Heze	-	238	374	612	8%
Xingning	-	48	146	194	2%
Yantai	-	-	204	204	3%
Lanzhou	-	-	480	480	6%
Haode Yinzuo	10	-	-	10	0%
Total	582	1,515	5,737	7,834	100%

Source(s): Company, ABCI Securities



Exhibit 4: Hydoo's presales breakdown (FY13)

Project	GFA sold (^{'000} sqm)	ASP (before business tax) (RMB/sqm)	Presales Amount RMB mn	% of presales %
Ganzhou	535	9,073	4,850	69%
Wholesales trading market	500	8,610	4,309	62%
Shopping mall	34	15,856	541	8%
Mianyang				
Wholesales trading market	213	6,266	1,334	19%
Jining	84	4,544	380	5%
Wholesales trading market	83	4,520	374	5%
Shopping mall	1	6,738	6	0%
Yulin	45	7,982	360	5%
Wholesales trading market	10	5,664	54	1%
Shopping mall	36	8,607	306	4%
Ningxiang	18	4,441	80	1%
Wholesales trading market	10	4,357	42	1%
Bus terminal and information center	5	4,030	21	0%
Serviced apartments	3	5,424	17	0%
Total	894	7,833	7,004	100%

Source(s): Company, ABCI Securities

Exhibit 5: Hydoo's FY13 results

P&L	FY13	FY12	YoY Chg	Operating statistics	FY13	FY12	YoY Chg
	RMB mn	RMB mn	(%)				%
Turnover	4,756	1,607	196.0	Presales GFA (mn sqm)	0.89	0.24	271.9
Cost of Sales & direct operating costs	(1,824)	(831)	119.5	Presales ASP (RMB/sqm)	7,833	5,432	44.2
Gross Profit	2,932	776	277.7	Contracted Sales (RMB mn)	7,005	1,306	436.3
Gross Margin (%)	61.6	48.3	13.3	GFA Delivered (mn sqm)	0.89	0.24	271.9
Selling and distribution costs	(129)	(62)	108.1	Booked ASP (RMB/sqm)	6,843	4,514	51.6
Administrative and other expense	(336)	(194)	72.6	Property sales booked (RMB mn)	6,119	1,086	463.7
EBIT	2,467	520	374.8	Balance sheet	Dec-13	Dec-12	YoY chg
EBIT Margin (%)	51.9	32.3	19.5		RMB	RMB	ppt
Other income	16	3	497.3		mn	mn	
Non-recurring items	(89)	14	na	Gross debt	884	1,330	(33.6)
Share of profit from JCE/ Associates	-	(3)	(100.0)	Cash	4,516	607	644.2
Finance cost	(70)	(73)	(4.2)	Net debt	(3,632)	724	NA
Profit before tax	2,325	460	405.1	Net gearing (%)	Net	76%	
					cash		
Tax	(1,149)	(245)	368.0				
- LAT	(682)	(61)	1,020.2				
- Enterprise tax	(467)	(185)	152.8				
Profit after tax	1,176	215	447.5				
Minority Interest	2	2	6.1				
Net profit	1,178	217	444.0				
Core net profit	1,418	363	291.0				
Core net margin	29.8	22.6					

Source(s): Company, ABCI Securities



Exhibit 6: Hydoo's FY14E NAV

	Attr. GFA (Mn sqm)	Net assets value (RMB mn)	% of total	Implied value per sqm (RMB)	Valuation Method
Property development					
Ningxiang	0.2	278	2%	1,752	DCF at WACC of 9.5%
Jining	0.7	1,628	12%	2,343	
Yulin	0.5	590	4%	1,222	
Minyang	0.3	343	3%	1,098	
Ganzhou	3.1	5,913	43%	1,914	
Wuzhou	0.9	2,130	16%	2,367	
Others (Heze, Xingning, Yantai & Lanzhou etc)	1.4	2,846	21%	2,048	
Total 2014E GAV	7.0	13,729	100%	1,954	
2014E Net Cash (debt)		6,046	44%		
Total 2014E NAV (RMB mn)		19,775	144%		
No. of share outstanding (diluted)		4,030			
NAV per share (RMB)		4.91			
Ex rate		1.26			
NAV per share (HK\$)		6.18			
Target discount (%)		30%			
Target Price (HK\$)		4.30			
WACC	9.5%				
Cost of Debt	7.0%				
Cost of Equity	12.0%				
Debt/ (Debt + Equity)	36.4%				

Source(s): Company, ABCI Securities estimates



Financial Statements

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013E	2014E	2015E	2016E
Revenue	1,607	4,756	8,029	9,305	10,019
Cost of sales	(831)	(1,824)	(3,570)	(3,790)	(3,222)
Gross Profit	776	2,932	4,458	5,515	6,798
SG&A expenses	(257)	(465)	(648)	(773)	(782)
EBIT	520	2,467	3,811	4,743	6,015
Finance cost	(73)	(70)	0	0	0
Share of profit of associates	(3)	0	0	0	0
Other income/ (expenses)	3	16	35	52	56
Change in fair value of embedded derivatives	(292)	0	0	0	0
Disposal/one-off items	307	15	0	0	0
Profit before tax	460	2,428	3,846	4,794	6,071
Tax	(245)	(1,149)	(1,568)	(1,995)	(2,910)
Profit after tax	215	1,279	2,278	2,799	3,161
Minority interest	2	2	0	0	(86)
Reported net profit	217	1,281	2,278	2,799	3,075
<i>Less: exceptional items</i>	<i>146</i>	<i>137</i>	<i>(0)</i>	<i>(0)</i>	<i>(0)</i>
Core net profit	363	1,418	2,278	2,799	3,075
Growth %					
Revenue	93.0%	196.0%	68.8%	15.9%	7.7%
Gross Profit	78.9%	277.7%	52.0%	23.7%	23.3%
EBIT	72.6%	374.8%	54.5%	24.4%	26.8%
Underlying net profit	67.9%	291.0%	60.6%	22.9%	9.9%
Margin %					
Gross margin	48.3%	61.6%	55.5%	59.3%	67.8%
Gross margin (post-LAT)	44.5%	47.4%	42.9%	45.9%	48.9%
EBIT margin	32.3%	51.9%	47.5%	51.0%	60.0%
Core net margin	17.4%	26.7%	28.4%	30.1%	31.5%
Key assumptions					
Presales (RMBm)	NA	7,005	9,863	10,338	7,892
GFA sold (m sqm)	NA	0.89	1.53	1.36	0.90
ASP (RMB/sqm)	NA	7,833	6,462	7,577	8,741
Booked Sales (RMB)	1,607	4,749	8,018	9,285	10,010
GFA delivered (m sqm)	0.36	0.69	1.18	1.36	1.23
Booked ASP (RMB/sqm)	4,517	6,843	6,794	6,825	8,159

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	4,955	10,702	16,830	19,798	19,860
Cash	584	4,293	9,207	11,053	10,738
Pledged bank deposits	22	223	223	223	223
Trade and other receivables	949	683	683	683	683
Inventories	3,304	5,391	6,605	7,727	8,105
Other current assets	96	112	112	112	112
Non-current assets	188	302	306	309	313
Property, plant & equipment	46	61	65	68	72
Investment properties	0	0	0	0	0
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	142	241	241	241	241
Total Assets	5,143	11,004	17,135	20,107	20,173
Current Liabilities	3,150	5,901	10,552	11,705	9,686
Short term borrowings	689	282	2,782	2,782	2,782
Trade and other payables	962	1,452	1,452	1,452	1,452
Pre-sale deposits	751	2,377	4,222	5,274	3,156
Other current liabilities	748	1,791	2,097	2,197	2,297
Non-current liabilities	937	671	671	671	671
Long term borrowings	60	602	602	602	602
Redeemable preference share	581	0	0	0	0
Other non-current liabilities	296	69	69	69	69
Total Liabilities	4,087	6,572	11,223	12,376	10,357
Net Assets	1,056	4,432	5,912	7,732	9,816
Shareholders Equity	950	4,421	5,902	7,721	9,720
Minority Interest	106	11	11	11	96
Total Equity	1,056	4,432	5,912	7,732	9,816
Key ratio					
Gross debt (RMBm)	1,330	884	3,384	3,384	3,384
Net debt (RMBm)	724	(3,632)	(6,046)	(7,893)	(7,577)
Net gearing (%)	76%	Net cash	Net cash	Net cash	Net cash
Presale/ Total assets (x)	NA	0.64	0.58	0.51	0.39

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	528	2,484	3,827	4,759	6,032
Change in Working Capital	(1,447)	1,401	1,107	302	(2,126)
Tax payment	(168)	(1,149)	(1,568)	(1,995)	(2,910)
Operating Cashflow	(1,088)	2,736	3,367	3,065	995
Purchase of PP&E	(27)	(20)	(20)	(20)	(20)
Addition of Investment Properties	-	-	-	-	-
Others	222	16	35	52	56
Investing Cashflow	194	(4)	15	32	36
Debt raised	691	700	2,500	-	-
Debt repaid	(45)	(198)	-	-	-
Interest expenses	(60)	(80)	(171)	(271)	(271)
Equity raised	194	1,321	-	-	-
Dividend to shareholders	-	(617)	(797)	(980)	(1,076)
Others	264	(150)	0	0	0
Financing Cashflow	1,044	976	1,532	(1,250)	(1,347)
Exchange rate change	(4)	-	-	-	-
Net cash inflow/ (outflow)	147	3,709	4,914	1,847	(316)
Cash- beginning	437	584	4,293	9,207	11,053
Cash- year-end	584	4,293	9,207	11,053	10,738

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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